NEWS

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End-of-Year Tax Tips from ClientFirst

Wealth, legacy & estate planning firm suggests six ways taxpayers can optimize financial outcomes

LITTLE ROCK, AR (November 21, 2024) – ClientFirst Wealth, Legacy, Estate Planning (ClientFirst), an independently owned and operated fiduciary financial advisory firm based in Little Rock, Arkansas, has as a public service put together seven financial and tax planning strategies to consider before December 31st. As the year draws to a close, taxpayers have a window of opportunity to take strategic steps to significantly reduce their 2024 tax liability.

"Yearend is fast approaching," said Ed Mahaffy, founder and President of ClientFirst. "Taking time to plan the most tax-efficient conclusion for 2024 can be well worth it, as various strategies can mitigate your 2024 tax bill. With the proper planning, these tactics could make a substantial difference. By taking action now, taxpayers can optimize their current financial position and set the stage for long-term tax efficiency."

ClientFirst's six tax saving strategies to consider now include:

1. Pull forward 2025 Expenses into 2024

For taxpayers who are confident that their 2025 income will exceed that of 2024, pushing expenses into 2024 can make sense. For individuals, this can be as simple as paying the January 2025 mortgage payment in December 2024. The same principal applies to property tax due in January, provided the taxpayer is under the $10,000 cap for state and local taxes. Also, if medical expenses are close to the 7.5% of AGI threshold, taxpayers might consider shifting additional medical expenses into the current year.

Businesses could pull forward into 2024 any property or mortgage expenses possible as well as any new equipment purchases. Business supplies are another obvious choice as are interest payments, dues to professional organizations or trade associations, etc. – essentially any expenses that allow the flexibility to pay in advance and thus harness the tax deduction for 2024.

2. Realize Capital Losses

"Realizing losses is something every investor should consider before yearend." Mahaffy said. "Losses of course can be used dollar-for-dollar to offset gains. Individuals can deduct up to $3,000, while married filing jointly can deduct $1500 each. If you have no capital gains, the deduction can be used to offset ordinary income."

3. Capture Charitable Deductions

"Charitable deductions are an obvious choice. Understanding the methods of gifting can save the taxpayer a bundle," Mahaffy said. "Gifting shares of appreciated stock is easy enough – just have your broker deliver shares to the charity's brokerage account. Be sure to get a receipt from the charity."

If the taxpayer is over 70 ½, they can make the charitable contribution directly from their IRA; this is known as a Qualified Charitable Donation or QCD. Moreover, the amount of contribution can satisfy the taxpayer's required minimum distribution requirements (RMD). By contrast, if taken as a distribution, the entire amount would be treated as ordinary income, subject to federal as well as state income taxation, if applicable.

Another option is a donor-advised fund. A donor-advised fund (DAF) provides tax benefits while allowing the taxpayer to direct how the funds are distributed. Meanwhile, any investment gains accrue to benefit the DAF.

"Using appreciated shares to fund the DAF can provide an immediate tax benefit, eliminating what would be capital gains tax liability and diversifying the taxpayer's portfolio all in one fell swoop," Mahaffy said. "You can cherry-pick an assortment of appreciated shares from various categories of your asset allocation (large cap. mid cap, small cap, international, etc.). Shares the sale would otherwise trigger a capital gains tax liability."

4. Maximize 401(k) Contributions

Maximizing retirement plan contributions, including any age-related catch-up provisions, is a "no-brainer" as there are tax deduction, tax-deferred growth, and employer-related matching opportunities that come into play.

5. Consider Roth IRA Conversions

Converting a traditional IRA to a Roth IRA could be an attractive strategy, especially in the early years of retirement before taking Social Security benefits or Required Minimum Distributions.

"A Roth conversion is the simple process of moving funds from a Traditional IRA into a Roth IRA," Mahaffy explained. "During this process, these funds are taxed as ordinary income. However, paying the tax now, while your income is lower than what it will potentially be when you start taking Social Security benefits and Required Minimum Distributions can make sense as the Roth IRA grows tax-free without any RMDs for the participant. When the Roth IRA passes to heirs, it continues to grow tax-free, although

heirs will have the burden of RMDs over a 10-year period, which serves to reduce the account size over time thus mitigating its tax-free growth potential.

Also, should one spouse significantly predecease the other, the surviving spouse could face an increased tax burden as the tax benefits of married filing jointly status is eliminated. In this situation, a Roth conversion beforehand would impose less of a tax burden. Roth conversions may also be executed in a series of smaller conversions over time in order to minimize tax liability versus converting an entire traditional IRA in a given year.

One caveat: Roth conversions often increase your Medicare premiums (IRMAA); however, these IRMAA premiums will only increase in the future in the absence of Roth conversions.

6. Remember Secure Act 2.0 Updates

According to the Secure Act 2.0, Roth funds in a qualified employer plan are no longer subject to RMDs, and catch-up provisions to an IRA are now indexed for inflation. Also, employees may elect that employer contributions be treated as Roth money for Roth 401(k), Roth 403(b), and SEP-type accounts.

Starting at age 50, catch-up contributions must be treated as Roth contributions for high-income employees (defined as those earning over $145,000 in the prior year adjusted for inflation.)

If a spouse inherits an IRA, they can elect to adopt the deceased spouse's age for RMDs. Also, under the Secure Act 2.0, SEP IRAs can contribute Roth funds.

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"There's still time to implement these strategies and potentially save thousands on your 2024 taxes," Mahaffy said. "Whether you're looking to maximize retirement contributions, execute a Roth IRA conversion, or leverage charitable giving for a tax deduction, proactive planning can make a world of difference."

ClientFirst's President Ed Mahaffy, MBA, CFP®, ChFC®, will conduct a webinar where he will drill into the above strategies and explain how taxpayers can implement these strategies for their specific situation before the year ends. Journalists and the general public are invited to attend. There is no cost but pre-registration is required.

Topic: Navigating the Sunset of the Tax Cuts and Jobs Act and Year-End Tax Strategies

Date: December 2nd, 2024

Time: 10:00 am CST

Register now:
https://us06web.zoom.us/webinar/register/WN_ssze1shnRFiBl9tMuOPkmA#/registration

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